

# SB 7902: Tax Relief for Employers

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*“...I also support rolling back the business and occupation tax to pre-1993 levels. We raised that tax in a time of fiscal emergency. That emergency has passed, and it’s important that we keep faith with the business community by repealing the increase.”*

**Gov. Gary Locke, Inaugural Address, Jan. 15, 1997**

## **Background**

In 1992, reports of a looming revenue shortfall appeared in the media long before lawmakers had a chance to review budget priorities for the 1993-95 spending period. Former Gov. Mike Lowry and House Appropriations Chairman Gary Locke declared a “fiscal emergency” after rolling out budgets that piled new spending requests on top of old program levels without taking a critical look at the state’s operations and priorities.

The facts, of course, did not support the dire predictions. At the time Lowry and Locke were declaring a fiscal emergency, forecasts called for Washington’s economy to generate nearly \$1.3 billion more state revenue in the 1993-95 budget cycle than had been collected in the previous two-year period.

Gov. Lowry and majority Democrats eventually increased spending by \$1.2 billion and approved the second-largest tax increase in state history. They paid for the spending hike with nearly \$700 million in new taxes and more than \$700 million in fees and funding from other sources.

The greatest burden from these tax increases — \$330 million in the 1993-95 budget period alone — fell on the shoulders of small employers in the state’s service industries such as: architects, CPAs, bookkeepers, realtors, real estate appraisers, computer programmers, stenographers, court reporters, armored car operators, and public relations consultants.

## **B&O Tax Rates**

The business and occupation tax is levied on gross receipts for all businesses in Washington. There are no deductions for the costs of doing business.

Prior to 1993, all service businesses paid a 1.5% B&O tax. In 1993, the service category was split into three types, each with its own new tax rate:

- Selected Business Services (legal, accounting, bookkeeping, consulting, etc.)
- Financial Services (banking, securities, investment, etc.)
- Other Services (doctors, beauticians, and others)

In 1996, the Legislature overrode Gov. Mike Lowry’s veto and rolled back half of the 1993 tax hike. This partial roll back saved employers approximately \$132 million.

## **Senate Bill 7902**

If passed, SB 7902 will complete the B&O tax rollback to pre-1993 levels. SB 7902 will cut taxes for 53,000 employers and save them approximately \$202 million between 1997-99, and selected business services and financial services classifications will be consolidated with “other activities”

<b>Business and Occupation Tax Rates for Service Businesses</b>				
Business Types	Prior to 1993	After 1993 Tax Increase	After 1996 50 Percent Rollback	SB 7902
Selected Business Services	1.5%	2.5%	2.0%	1.5%
Financial Services	1.5%	1.7%	1.6%	1.5%
Other Services	1.5%	2.0%	1.75%	1.5%

## **B&O Tax Facts**

- The reduction to pre-1993 levels will benefit about 66,240 small businesses in Washington state. In fact, 96 percent of the businesses that receive a reduction under this measure are small businesses.
- Sixty-eight percent of the businesses benefitting from this tax rollback have total annual sales of less than \$200,000.
- The average small business owner benefitting from SB 7902 has an annual income of about \$30,000 per year.
- For many service businesses, the current B&O tax rate is equivalent to an income tax of 20 percent, an extremely high tax on business income when compared to other states.
- According to a 1995 Dunn and Bradstreet report, the service sector creates most new jobs.
- In a 1995 survey, nearly 10,000 small business owners in Washington said returning the B&O tax to pre-1993 levels would be the best tax relief they could receive.
- The B&O tax is essentially an income tax on an employer’s gross receipts. It has nothing to do with profit. In fact, the B&O tax increase in 1993 wiped out the profits for many small businesses hurting both the owner and their employees.
- The 1993 tax hike was a double hit on small service businesses. It increased their taxes

and raised the price for commercial services that are too expensive for most small businesses to operate in-house.

- Repealing the remaining 1993 B&O tax increase is sufficient to pay for health care insurance for the assistant of a service professional doing \$250,000 in gross sales per year.
- Between 20 and 30 percent of the small service businesses that pay the 1993 B&O tax increase earn no profits.

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